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REPORT

TO THE

COMMITTEE ON THE BUDGET

FROM THE

COMMITTEE ON VETERANS' AFFAIRS

SUBMITTED PURSUANT TO SECTION 301 OF THE CONGRESSIONAL BUDGET ACT OF 1974

ON THE

BUDGET PROPOSED FOR FISCAL YEAR 1990

FEBRUARY 27, 1989.—Printed for the use of the Committee on Veterans' Affairs of the House of Representatives

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February 27, 1989

Honorable Leon E. Panetta
Chairman
Committee on the Budget
U. S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Committee on Veterans' Affairs met on February 22, 1989, and unanimously ordered the attached views and estimates to be reported to the Committee on the Budget. It is an understatement to say that no issue is of greater concern to the members of our committee than the current budget shortfall affecting the VA system. The magnitude of this concern is reflected not only by the large amounts of money that our committee believes is needed to relieve a seriously beleaguered system, but by the scores of Members who have contacted the committee to express concern over service cutbacks. At the same time that increased services are needed for veterans suffering from the more serious diseases of an aging population, AIDS, post-traumatic stress disorder (PTSD), and other diseases that require the commitment of significant new treatment resources, we are seeing a steady decline in the quantity of services which the VA is capable of delivering. This decline will accelerate if the Budget Committee is unwilling or unable to accept the recommendations of this committee.

Our committee is recommending supplemental appropriations in the current fiscal year totaling $520 million, and recommends a total of $32 billion in budget authority and $30.7 billion in outlays for fiscal year 1990. The budget authority figure is $1.24 billion higher than the President's recommendation and $590 million higher than the CBO baseline. Although these are relatively significant increases, we believe they are fully justified in the enclosed report and affordable.

Considering only the so-called "domestic discretionary programs," the President has recommended significant increases in funding for space exploration, the National Science Foundation,

and AIDS research. While we view all of these programs as important, the problems presented by the serious shortfalls in the veterans medical programs are at least as urgent as those which these recommended increases are intended to address. According to estimates recently provided to the committee, the Department of Veterans Affairs will expend $165 million for clinical treatment, training and research related to AIDS in fiscal year 1990. Since the Department must take funds from other activities to fund these costs, we believe that it would be appropriate to allocate this amount out of the $1.6 billion requested by the President for AIDS. Similarly, two special programs to assist homeless veterans were developed in 1987, but the Department has been forced to curtail other activities in order to fund these programs in the next fiscal year. These are very valuable and effective programs; surely, out of the funds requested in the President's budget for programs assisting the homeless, $30 million to support these efforts should be found. Finally, out of the $5 billion requested for drug programs, $86 million should be allocated to the VA to support its ongoing treatment programs.

Should our recommendations be accepted by the Budget Committee, the new Department of Veterans Affairs will still have to make some hard decisions about the breadth and availability of some of the medical services it now offers, and the delays and errors in handling claims for benefits will not suddenly disappear. In order to assist the Budget Committee achieve a responsible budget, we have examined programs within our jurisdiction and have identified several areas where meaningful reform of entitlement programs could be achieved, and would be willing to assist the Budget Committee in reducing the amounts needed to cover the shortfalls identified in our report through such means.

Sincerely,

G. V. (SONNY) MONTGOMERY
Chairman

BOB STUMP
Ranking Minority Member

Enclosure

INTRODUCTION

The budget for Veterans' Benefits and Service submitted on January 9, 1989, proposes total budget authority for the new Department of Veterans Affairs of $30.0 billion. This figure consists of $28.6 billion in requested appropriations for existing programs, $1.4 billion in permanent budget authority net of receipts from the public, and a net −$83 million in proposed legislation. The budget projects actual outlays to total $29.8 billion in fiscal year 1990. This is an increase of $633 million from projected 1989 outlays, which is attributable in part to higher payments for compensation recipients, a modest increase in the appropriation request for veterans health care, and the budgetary treatment of recourse loan sales, offset by assumed savings from proposed legislation.

Overall, the percentage of Federal outlays for veterans' benefits and services has been steadily declining for the past ten years, and is projected to decline even further through fiscal year 1990.

The following table summarizes this decline.

PERCENT OF TOTAL FEDERAL OUTLAYS FOR NATIONAL DEFENSE, HUMAN RESOURCES, AND VETERANS BENEFITS

	Fiscal Year (In Percent)			
	1965	1975	1985	1990 est.
National Defense	42.8	26.0	26.7	26.3
Human Resources (Social Security, Medicare, etc., excluding veterans benefits)	26.1	47.1	47.1	49.5
Veterans Benefits	4.8	5.0	2.8	2.6

	Fiscal Year	Percent
Total Federal Outlays for Human Resources Attributable to Veterans Benefits	1965	15.6
	1975	9.6
	1985	5.6
	est. 1990	5.0

SOURCE: Fiscal Year 1990 Budget of the United States Government; Historical Tables, Office of Management and Budget.

The proposed budget will not allow the Department of Veterans Affairs to maintain the level of services it provided to veterans in fiscal year 1988. Both the Veterans Benefits Administration (VBA) and the Veterans Health Services and Research Administration (VHSRA) are currently reducing employment levels and curtailing services because the 1989 appropriation is insufficient to support

1988 employment levels. An additional $520 million is recommended by the Committee for the current fiscal year to maintain a 1988 services level in VBA and VHSRA, and to begin funding a large backlog of major construction projects.

With regard to the fiscal year 1990 budget, funding for the entitlement programs (compensation, education, and loan guaranty) is not seriously understated, although there are a number of controversial legislative proposals affecting the loan guaranty program. However, like the 1989 budget, the 1990 budget would require substantial further reductions in employment levels in the VBA and the VHSRA.

Funding for medical and other facility construction averaged almost $590 million from fiscal year 1981 to 1986. It is only $500 million in fiscal year 1989 and the 1990 request is $487 million, although the Department proposed over $800 million in projects to OMB. There are no funds requested for nursing home construction, and there are no funds to colocate VA regional offices on the grounds of VA medical centers, a proposal which has been strongly supported in past Congresses.

THE NEED FOR A SUPPLEMENTAL APPROPRIATION IN FISCAL YEAR 1989

During hearings in the House and Senate in September, 1988, the Administrator of Veterans' Affairs conceded that there was a need for additional appropriations for the Medical Care account in fiscal year 1989 if the 1988 level of employment was to be maintained. Subsequently, the Chief Benefits Director advised the Congress that it would be impossible to employ the number of employees mandated by the VA's 1989 appropriation act if a supplemental appropriation for the General Operating Expenses (GOE) account was not enacted.

During executive branch consideration of the Department's 1990 budget request, the need for supplemental appropriations was discussed by DVA and the Office of Management and Budget. Ultimately, the Administration decided not to request any additional funding for the Medical Care or GOE accounts for fiscal year 1989.

The Veterans Benefits Administration (VBA), formerly the Department of Veterans Benefits, requires supplemental appropriations of $21 million to maintain the mandated level of 12,898 employees. However, the amount of supplemental funding required for the Medical Care account has been the source of some dispute. With regard to this account, the Administrator of Veterans' Affairs placed the funding shortfall for fiscal year 1989 at $432 million in response to a question from the Senate Committee on Veterans' Affairs. However, the Veterans Health Services and Research Administration (VHSRA, formerly the Department of Medicine and Surgery), calculated the shortfall at some $202 million higher, or $635 million. According to the VHSRA, the Administrator's estimate does not consider the following costs or incorrectly assumes savings which cannot be substantiated:

(DOLLARS IN MILLIONS)

Homeless Programs Cost	$23.6
Contract Hospitalization Cost Increase	$47.2
Higher Special Pay Costs	$22.2
Productivity Initiative "Savings"	$98.4
ADP "Savings"	$11.0

More recently, the Chief Medical Director, in a letter to the Chairman of the Committee dated January 25, 1989, stated that the shortfall was estimated to be $435 million.

Notwithstanding the fact that no supplemental funds for the Medical Care or General Operating Expenses are included in the Administration's budget request, the Administration did request supplemental funds for compensation, pensions, readjustment benefits, and the loan guaranty revolving fund totaling $1.035 billion. These funds are necessary to meet increased costs for claims and to pay for the cost-of-living adjustment enacted in November 1988.

During hearings on the VA budget request, the Committee was informed that Secretary-Designate Derwinski had requested the Office of Management and Budget to approve supplemental funding for fiscal year 1989 of $314 million for Medical Care and $10 million for General Operating Expenses. While the Committee commends the Secretary-Designate for his request, it is below the levels which the Chief Medical Director testified were necessary to fully fund VHSRA operating requirements in 1989. Similarly, the $10 million recommended for GOE is about half the amount needed to maintain DVB field employment at the level (12,415 FTEE) mandated by the Conference Report on the VA's 1989 appropriation measure. As of February 22, 1989, the Committee markup of its budget recommendation, OMB had not approved the supplemental funding request.

In addition to amounts recommended for Medical Care ($432 million) and General Operating Expenses ($21 million), the Committee is recommending $67 million to begin funding a growing backlog of major facility construction projects. As indicated above, funding requests for major construction projects have declined in the past three years, resulting in a long list of necessary but unfunded construction projects. The Committee is concerned that the recent decision by the Joint Commission on Accreditation of Healthcare Organizations to revoke the accreditation of the VA outpatient clinic in downtown Boston could be repeated at other VA medical facilities around the country. Accordingly, the Committee is recommending supplemental funding in 1989 as well as substantial increases above the Administration request for 1990.

THE 1990 BUDGET REQUEST AND COMMITTEE RECOMMENDATIONS

General Operating Expenses

The General Operating Expenses (GOE) account primarily supports payroll expenses of personnel responsible for administering non-medical benefits to the veteran population. These benefits include the administration of VA compensation, pension, education,

GI loan, and insurance programs, the Board of Veterans' Appeals, General Counsel, other non-medical elements of Central Office, as well as maintenance of the national cemetery system. The budget request is $803.56 million in budget authority for fiscal year 1990. The GOE appropriation request would support 775 fewer FTEE than the 1989 appropriation.

The Committee believes that decreases in employment levels for field activities of the Veterans Benefits Administration cannot be justified given the trends in workload and timeliness. There is a critical shortage of trained staff to carry out essential functions which are the foundation of the veterans' benefits program, and the Committee believes that staffing must be increased to reverse this pressing problem. The Committee is recommending $829 million for this account in 1990, $25 million higher than the Administration request. This will allow the Veterans Benefits Administration to staff its various functions at an overall FTEE level that is approximately 720 FTEE higher than the 1990 request level, which is 12,100 FTEE. It would also allow additional progress on implementation of the ADP modernization initiative, and would provide appropriate staffing for the National Cemetery System and the Board of Veterans' Appeals.

VETERANS BENEFITS ADMINISTRATION

The Administration requests $548.83 million and 12,100 FTEE to accomplish its goals for 1990. The 12,100 FTEE level reflects a decrease of 550 FTEE from 1989, and is 798 FTEE below the level of average employment mandated in the 1989 appropriation. The decrease of 550 FTEE includes decreases of 7 FTEE in Compensation, Pension, and Education Services, 45 in Loan Guaranty, 91 in Veterans Services, 335 in Support Services (included in this figure is a one-time transfer of 227 FTEE to the Veterans Health Service and Research Administration), and 5 in Vocational Rehabilitation and Counseling Services.

Adjudication.—The budget estimate forecasts a very slight decrease in C&P original claims and cites overall declines in workload and increases in productivity as the bases for the reduction of 7 FTEE.

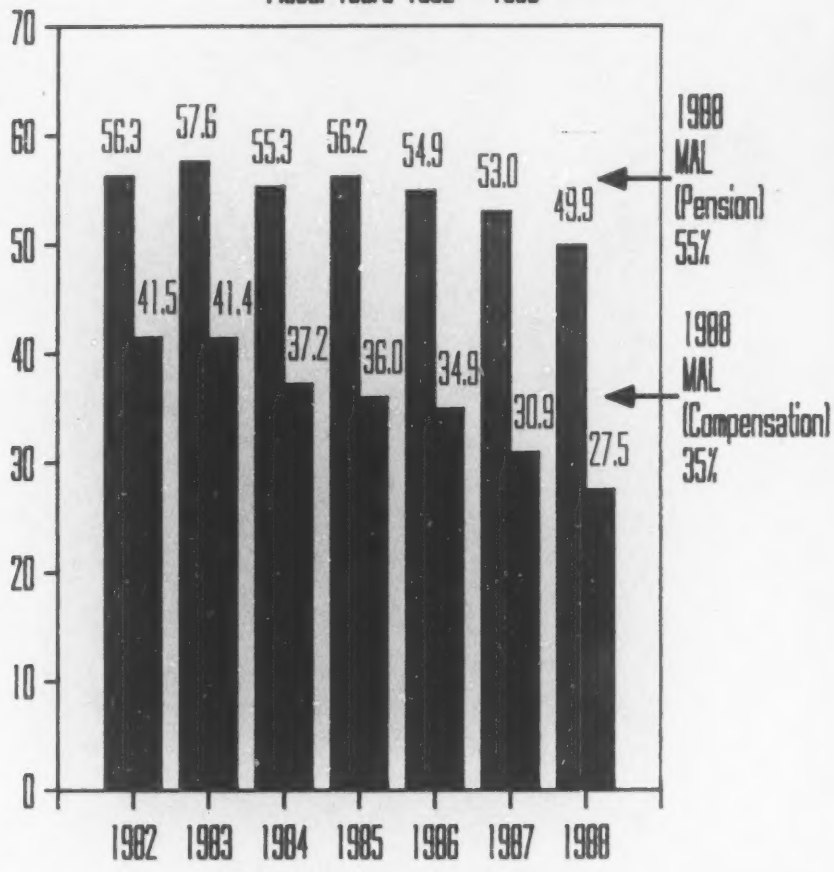
Available data show that during fiscal year 1988 only 27.5 percent of original compensation cases were completed within 90 days. This is well below the VA's minimum acceptable level of 35 percent and even further below the level the Committee believes the VA should consider acceptable, 50 percent. Although the budget request indirectly acknowledges the need for appropriate staffing levels in order to maintain current performance levels, it fails to provide staffing levels that will allow the VA to make significant inroads towards timely and accurate claims processing.

An analysis of timeliness statistics over the past seven fiscal years in this program indicates a downward trend in the VA's timeliness which correlates with the severe decline —25 percent— in average employment (4,832 FTEE in fiscal year 1982 down to 3,637 FTEE in fiscal year 1988) over the same time period. Current service is grossly deficient, and a decrease in personnel would fur-

ther aggravate this deficiency. The following charts illustrate the direct correlation between the decline in timeliness of claims processing and reductions in staff which have occurred between fiscal year 1982 and fiscal year 1988.

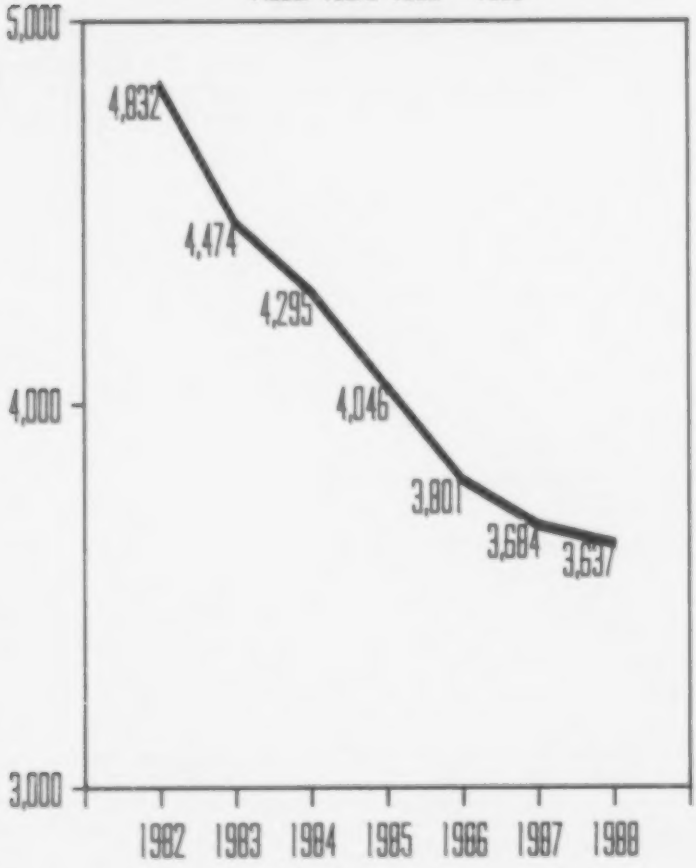
Percent of Compensation and Pension Claims Completed Within 90 Days

Fiscal Years 1982 - 1988



(MAL = Minimum Acceptable Level Per VA)

Average Staffing Levels
Compensation, Pension and Education
Fiscal Years 1982 - 1988



Continual reductions in staff levels cannot be justified based on lower caseloads when statistics show that performance as measured by timeliness standards continues to decline. Cuts in staffing in excess of those justified by slight declines in caseload have not been offset by modernization initiatives and, based on the delays the agency has encountered thus far in its modernization efforts, it is clear that the agency will be unable to maintain even its current unacceptable standards unless adequate staffing is provided for in the budget.

The proposed budget includes a request for $25.05 million in fiscal year 1990 to support the twelve-point modernization plan, as well as $921,000 for an adjudication academy with the primary purpose of providing centralized training for new adjudicators. The Committee supports these requests but does not accept the projected savings of 167 FTEE resulting from short-term initiatives in the modernization plan. Any savings resulting from implementation of office automation should be applied to the four areas indentified in this report as requiring improved service to veterans.

Veterans Services.—The Veterans Services Program responds to public benefits inquiries, provides outreach to potential beneficiaries, and conducts field examinations of beneficiaries whose benefits are paid to a fiduciary. In 1988 this program had 11.1 million veterans assistance contacts, of which 9 million were telephone interviews. It also conducted 89,000 field examinations and did over 4,000 school compliance surveys.

Because of the 15-percent decline in the number of persons employed in this program over the last four years, as well as the decrease in the number of toll-free telephone lines, it is estimated that over 500,000 callers could not obtain access to benefits information in fiscal year 1988. In addition, despite the increased Congressional emphasis on outreach to homeless and other veterans who may not be aware of VA benefits available to them, this program has been forced to curtail staff hours devoted to outreach from 62,957 hours in 1985 to 38,914 in 1988, a reduction of 38 percent.

The Administration request includes a reduction of 91 FTEE in Veterans Services based on a projected decline in the number of telephone contacts, field examination actions, and compliance survey actions. A portion of this reduction reflects projected modernization savings of 36 FTEE. The Committee believes that, in spite of the projected slight decline in telephone contacts, the abandoned-call rate remains too high, and that the requested reductions in Veterans Benefits Counselors will not be offset sufficiently by equipment or management enhancements. With regard to fiduciary-beneficiary field examinations, the Committee is concerned with the level of protection being afforded to supervised beneficiaries and the impact that reduced staffing would have on beneficiary protection and program integrity. In view of these points, the Committee believes a reduction in staff of 91 FTEE is not justified, and recommends that the Chief Benefit Director direct a substantial portion of the recommended increase of 720 FTEE for VBA to

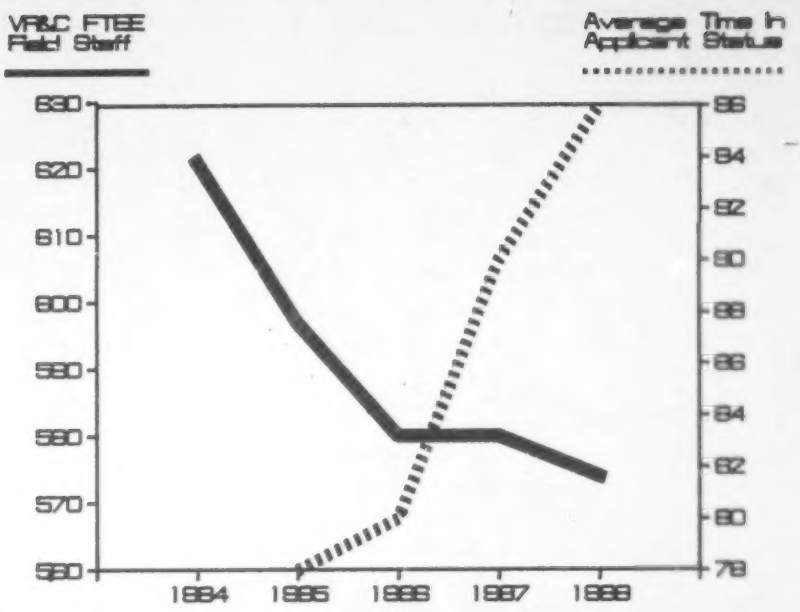
this service and to the Compensation, Pension and Education service.

Insurance.—Funds of $11.25 million and 439 FTEE are requested to support the VA insurance program in fiscal year 1990. This is a decrease of $274,000 and 19 FTEE from the 1989 level. The decrease of 19 FTEE reflects savings associated with implementation of toll-free telephone service, the pre-authorized deduction initiative, and the insurance system redesign. These savings are partially offset by increases in average salaries and benefits.

Vocational Rehabilitation and Counseling Service.—Included in the President's budget is a recommendation to reduce the Vocational Rehabilitation and Counseling (VR&C) program by 5 full-time equivalent employees (FTEE). This program (Chapter 31, title 38, U.S.C.), available to eligible service-disabled veterans, provides services and assistance necessary to enable these veterans to achieve maximum independence in daily living and, to the maximum extent possible, to become employable and to secure and maintain employment. Additionally, VR&C provides counseling services to veterans and members of the Armed Forces applying for educational and job training benefits.

Since 1984, VR&E field staff have been reduced from 621 FTEE to a current level of 574 FTEE. An analysis of caseload and timeliness statistics clearly demonstrates that the downward trend in FTEE has resulted in an unacceptable level of service delivery. For example, under current staffing levels, a service-connected disabled veteran who applies for training under Chapter 31 must wait an average of 93 days before being seen for an initial appointment with a counseling psychologist for evaluation and planning services.

Even the DVA in budget documents acknowledges that, in spite of modernization efforts, the nature of the evaluation and planning process precludes the substitution of mechanical systems for personal counseling interaction. Consequently, improvements in timeliness are not anticipated. The following chart demonstrates the relationship between reduced FTEE and deterioration in timeliness:



The lag time between application for vocational rehabilitation and the first appointment with a counseling psychologist has two effects. First, the applicant's level of motivation and morale is reduced because the impression given is that the system is unresponsive and "nobody cares." Secondly, the disabled individual is more likely to develop "illness behavior," which may be exemplified by long periods of rest or an increase in psychosomatic problems, and the process of vocational re-entry into competitive employment becomes considerably more difficult.

Because vocational rehabilitation services carry out our nation's commitment to those to whom we owe the most, service-connected disabled veterans, it is imperative that services provided under this program meet the highest standards of timeliness and quality. In order to accomplish this, the Committee rejects the Administration's proposal that VR&C FTEE be reduced and recommends that there should be one Vocational Rehabilitation Specialist (VRS) for every 125 currently active cases and one Counseling Psychologist (CP) for every 20 such cases. This would require an additional 76 VRSs and 90 additional CPs.

Additionally, the Committee notes that the Veterans Administration has been criticized for the inability of the Vocational Rehabilitation staff to effectively and efficiently provide employment services to those veterans who require such assistance. The addition of a position of Employment Specialist would allow the VA to employ an individual specifically trained in employment services to assist veterans requiring help in job placement activities.

At any one time, approximately 4,000 veterans are in employment assistance status, the point at which a veteran is determined to be "job ready" and actively seeking employment. A veteran must be maintained in this status a minimum of 90 days after be-

coming employed. VA data show that in FY 1990 a veteran will be in employment status an average of 295 days, as compared with 242 days in FY 1986. The development of the Employment Specialist position and the placement of 40 of these individuals would greatly reduce the time in employment status and enable the VA to fulfill its responsibility to enable veterans with service-connected disabilities to become employable and to obtain and maintain suitable employment. If these 40 positions were funded, the number of VRSs required could be decreased by 40.

Loan Guaranty.—The Administration proposes that Loan Guaranty employment decrease by 45 FTEE from the 1989 level for a total of 2,033. It should be noted that in the 10-year period from 1978 to 1988, employment levels decreased by 370 people from 2,470 to 2,100. However the number of claims filed rose from 14,388 to 50,285 and properties on hand have also increased from 11,291 to 21,161.

High foreclosure levels continue to be a major challenge. GAO has repeatedly testified before the Committee that intensive and timely servicing of defaults reduces ultimate foreclosures and subsequent claims and property management expenses. It is estimated that a 2 percent increase in the cure ratio could generate $56 million in savings, far offsetting the cost for additional FTEE. Additionally, an increase in the number of persons employed in the property management function would result in reduced holding times for acquired properties and higher prices. If the average selling price increased by 1.5 percent DVA estimates that this would generate an additional $26 million in revenue to the loan guaranty revolving fund. It is estimated that the addition of 248 FTEE at a cost of $9.450 million would generate $82 million in savings, and the Committee recommends this change to the budget request.

The VBA will complete the prototype of the Loan Production System (LPS) in 1989 and begin nationwide implementation if authorization to spend funds from the Loan Guaranty Revolving Fund is enacted. This multifaceted project is designed to automate certain loan guaranty work processes. The system will automate the issuance of certificates of reasonable value, loan commitments and loan guaranty certificates, as well as manage correspondence, provide appraisal and loan tracking capabilities and transfer all required data to the GI Loan statistical system (GIL). Subsequent phases will include code sheet elimination, automation of title acquisition, repair procedures, sales listings, purchase offer processing, property sales closings and an on-line production system for control and management of delinquent GI loan supplemental servicing, and foreclosure and claims processing.

Once this is implemented, the VA estimates a further reduction in FTEE of 177 to 70 FTEE from loan guaranty and 107 FTEE from administrative services. In lieu of these reductions, the Committee recommends that any savings from implementation of office automation be applied by the Chief Benefits Director to improve service to veterans, including the costs of the modernization plan.

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NATIONAL CEMETERY SYSTEM

A total of 144 cemeterial installations and activities are now included in the National Cemetery System, located in 39 States, the District of Columbia and Puerto Rico, The existing 144 cemeterial activities total 9,905 acres. Since the establishment of the National Cemetery System in the Veterans Administration in 1973, approximately 699,000 decedents have been interred in national cemeteries. During the same period, approximately 4.1 million headstones and markers have been furnished to mark graves.

In 1988, a total of 56,216 remains of veterans, active duty personnel and dependents were interred in national cemeteries. The 1990 interment projection is 60,500. Two hundred eighty-eight thousand applications for grave markers are expected in fiscal year 1989 and 291,000 in fiscal year 1990.

For 1990, a total of 1,238 FTEE is requested for the national cemetery system. This represents a net increase of 35 FTEE over the 1989 current estimate level. Of the requested 35 increase in average employment, 13 are for increased workload in existing cemeteries, 8 are for staffing the new National Memorial Cemetery of Arizona, 4 are for activation of the San Joaquin Valley National Cemetery, and 3 are for employing automated data processing support personnel at each National Cemetery Area Office. Another 7 result from the transfer of the Presidential Memorial Certificate program to the National Cemetery System from the Veterans Benefits Administration.

It should be noted that from 1983 to 1990, interment and gravesite maintenance workloads have increased 35.4 percent and 19.1 percent respectively. Despite these increases, average wage grade employment has increased only 4.1 percent. In addition to these increased workloads, the Veterans Administration has activated cemeteries in Fort Mitchell, Alabama, Bushnell, Florida and Pruntytown, West Virginia. The Agency has developed work rate standards that indicate an employment level of 1,269 FTEE is required in 1990 to support increased workloads. The Committee therefore recommends an increase of an additional 31 FTEE.

In 1989, 2.1 percent of the 4.1 percent pay raise is being absorbed within existing resources, and the planned National Cemetery System budget will be reduced $1,745,000 by a reprogramming of budget authority to provide additional payroll funding to the Veterans Benefits Administration. The supplemental appropriation recommended elsewhere in this report for VBA should permit the restoration of funds for high-priority equipment purchases and maintenance projects in 1989.

STAFF OFFICES (CENTRAL OFFICE) EMPLOYMENT

Significant changes in proposed Central Office employment include a proposal to reduce the staff of the Board of Veterans' Appeals by 19 employees. The Department projects that this reduction will result in an increase of six weeks in the time it takes the Board to respond to a veteran's appeal. The Committee rejects this planned reduction in personnel and recommends that funds needed

to keep employment at currently-authorized levels be provided in 1990. Increases in the Office of General Counsel will be necessary because the General Counsel is required to represent the Department before the new Court of Veterans Appeals, although this increase is offset by reductions in other staff offices. It is uncertain how many veterans will appeal to the new court, so that some adjustment in the General Counsel figure may be necessary. The Office of Inspector General, formerly funded in this account, will now be funded by a separate appropriation account.

VETERANS HEALTH SERVICES AND RESEARCH ADMINISTRATION

The veterans' health care delivery system is facing a financial crisis that, unless relieved, will ultimately result in second-rate or no health care for the veterans of our Nation. Virtually every one of the DVA's 172 hospitals is reporting staff shortages, inadequate medical supplies and equipment replacement, delays in needed construction/renovation, and more and more veterans being turned away from needed medical treatment.

As a result of a survey conducted by the Committee in the summer of 1988, it was learned that there was an average shortage of 183 full-time employees per medical center as of June 30, 1988. Additionally, every medical center reported operating requirements that were unfunded by Department of Veterans Affairs (DVA) Central Office in fiscal year 1988. Such unfunded requirements totalled over $220 million, of which about one-third ($73.7 million) related to personnel costs. To meet these funding requirements, hospital directors were forced to use funds earmarked for other purposes. In particular, in fiscal year 1988, $105 million of monies which were allocated for other purposes were used to fund recurring operating expenses. Specifically, over $60 million was diverted from combined equipment/maintenance and repair accounts. Over $44 million was taken from drugs, medical supplies, and prosthetics monies.

As of June 30, 1988, over 13,000 beds were "temporarily" closed throughout the DVA hospital system. Of those beds, hospital directors estimated 30 percent were closed due to staff or funding shortages. Some of the beds were closed for construction purposes, but hospital directors estimated that if the construction projects were completed, there would be no staff to reopen the beds.

The survey responses indicated that the capacity of the DVA medical care system to deliver care has declined substantially. It seems apparent that this fiscal ill-health may have been incubating for a period of time, but was not reflected in official testimony and reports. Since 1980, DVA patient workloads have increased substantially—hospital patients, up 7 percent; outpatient visits, up 29 percent; and, nursing home care patients have increased by 63 percent. From 1985 to the present, Medicaid spending has grown by 55 percent and Medicare spending is up 32 percent. However, in stark contrast, spending for veterans health care has increased by only 17 percent over the same period. As can be seen from the chart on p. 16, there has been no real increase in spending for veterans health care.

Need for a Fiscal Year 1989 Supplemental.—The DVA medical care system has reduced employment levels and curtailed services because the fiscal year 1989 appropriation is insufficient to support 1988 employment levels. These reductions are documented in the Administration's proposed budget for fiscal year 1990.

As discussed above, during the Committee's February 7, 1989 budget hearing, a letter from Secretary-Designate Edward Derwinski was delivered which described his appeal to the Office of Management and Budget for a 1989 supplemental appropriation of $314 million and 1,539 FTEE for the Medical Care account. (He also requested an increase of $512 and 5,093 FTEE for the fiscal year 1990 VA budget.) However, this appeal did not reflect pay and other costs which, if included, would have increased substantially the magnitude of the appeal. Some of these costs were noted in a letter from the VA's Chief Medical Director, which provided details of the purposes and funds required to provide a balanced program of medical services in fiscal year 1989 (for purposes of a supplemental) and in fiscal year 1990. The amount of the supplemental described by Dr. Gronvall is $432 million. He wrote, "FY 1989 operating shortfalls currently estimated at $614 million make it impossible to support 194,720 FTEE and 1988 workload levels. . . . The FY 1989 estimate in the FY 1990 President's Budget reflects the levels of care (workload) and employment affordable at the appropriated level of resources. Within the total dollars available, resources were realigned to effect a balanced health care program. This realignment included shifting capital investment dollars to personal services to help maintain employment levels and the combining of community nursing and contract hospital program resources to maximize the use of VA supported contract program funding." The practical result is a reduction of 4,643 FTEE and a reduction of 2.4 million outpatient visits in fiscal year 1989.

The need described by Dr. Gronvall for a $432 million supplemental did not adjust for about $200 million in other costs: the OMB directed one-percent "productivity improvement" ($98.4 million), higher special pay costs ($22.2 million), contract hospitalization ($47.2 million), homeless programs ($23.6 million), and computer "savings" ($11 million).

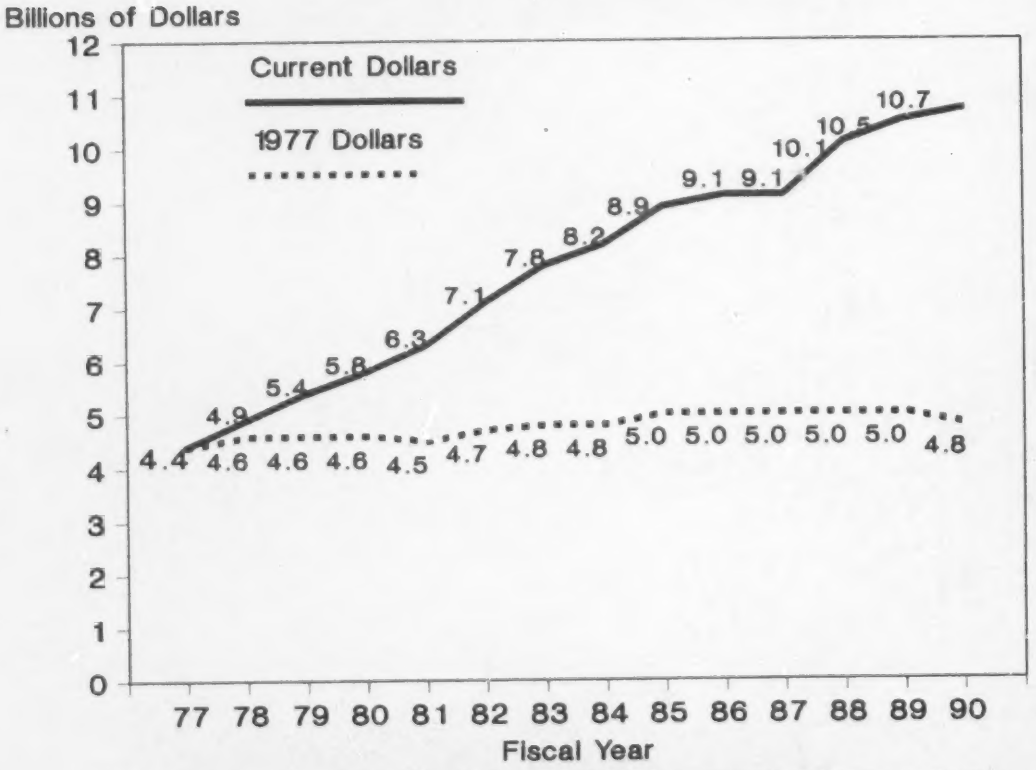
The Committee recommends a fiscal year 1989 supplemental appropriation for the VA medical care account of $432 million. Included in this amount are funds needed to activate the completed outpatient clinic in Savannah, Georgia. In addition, the Committee recommends a supplemental appropriation for medical care construction of $67.6 million to fund projects that are already approved by the Committee and are ready to begin: Nashville, Tennessee VA Medical Center clinical improvements ($38.8 million) and Wilmington, Delaware VA Medical Center clinical addition ($28.8 million).

Budget for FY 1990.—It is important to remember that the fiscal year 1989 budget is at least $435 million below the level determined by the Chief Medical Director to be necessary to meet Congressional mandates. Thus, comparisons with fiscal year 1989 may

not accurately reflect the real effect of fiscal year 1990 proposals on the delivery of VA medical services.

The Administration's proposed VA medical care budget for fiscal year 1990 is $10.7 billion, an apparent increase of 1.9 percent over the 1989 level. This percentage is less than half of the Congressional Budget Office's (CBO) projected rise in inflation of 4.9 percent and is less than one-third of the projected rise in the medical consumer price index of 6.9. The following chart shows the discrepancy between actual and deflated (1977 dollars) budget authority for fiscal years 1975 to 1988 and requested versus deflated dollars as projected for fiscal years 1989 and 1990.

Medical Care Budget Authority
Current Vs. Deflated (1977) Dollars



Note: Current dollars are deflated using the Medical CPI for non-payroll costs and converting the value of 1978-1987 actual and 1988-1989 budgeted employment to 1977 dollars.

The Committee rejects this proposed budget because it is considerably short of the amount needed to meet Congressional mandates. The Committee recommends instead a budget of $11.823 billion in budget authority and 197,384 FTEE, increases of $1.3 billion and 11,190 FTEE over the proposed budget. The following sections detail the specific recommendations of the Committee in response to the president's proposed Department of Veteran's Affairs medical care budget for fiscal year 1990. In addition, a section describes cost factors not covered by the Committee recommendations.

Increased Funds for a Balanced Medical Program.—The letter from the VA's Chief Medical Director presented details from his analysis of medical care fund needs for fiscal year 1990 for a balanced program. The Committee recommends the $797 million addition detailed by the Chief Medical Director.

Principally, this amount would restore personnel to meet the 194,720 FTEE level mandated by the Congress and provide supplies and equipment for use in delivering medical care to eligible veterans in a balanced program of acute, long term and outpatient care and research.

The Administration's budget proposes reductions in medical care personnel of 8,526 full-time equivalent employees (FTEE) below the Congressionally mandated level of 194,720. The reductions in medical care personnel proposed in the President's budget are 3,883 FTEE but that number does not reflect the fiscal year 1989 personnel reduction of 4,643 FTEE below the Congressionally mandated level.

The results of the personnel shortfall and the additional personnnel reductions are at least 7,803 fewer patients treated in medical bed sections, 7,794 fewer patients in surgical bed sections, 3,140 fewer patients in psychiatric bed sections for a total reduction of 17,516 veterans to be treated in fiscal year 1990. Further, there has been an adverse impact on the ability of the VA to provide operating resources for completed construction projects. Providing such resources is termed "activation" and includes medical equipment and supplies as well as personnel. The proposed budget recognizes the problem by recommending increases of $142 million and 1,415 FTEE, but states that postponement of activations will still occur. Dr. Gronvall stated that increases of 2,177 FTEE and $289.5 million would be required for activations in fiscal year 1990, which is included in the $797 million addition. The Committee intends that activation money be expended for that purpose.

The Committee recommendation would restore decreases proposed under the heading of "Redistribution of Levels of Care", which is simply a reduction in the number of veterans who will receive VA care. The redistribution proposes decreases from the fiscal year 1989 level of $215.3 million and 2,863 FTEE; decreases in the number of veterans who will receive VA medical care of 20,884 hospital patients and 3,449 nursing home patients, and 7,420 domiciliary patients.

Fund Special Pay Requirements.—Special salary rates are necessary to maintain competitive pay to recruit and retain medical

staff, particularly nurses and pharmacists. As documented in the Committee's 1988 survey, the unfunded special pay requirements forced hospital directors to divert funds from other operating accounts and seriously jeopardized the integrity of the medical care system. For fiscal year 1989, the VA estimates the costs of special salary rates to be $188 million, of which $103 million, or 55%, is unfunded. For fiscal year 1990, the VA estimates the total expenditure for special salary rates to be $311 million. The $797 million addition described by Dr. Gronvall leaves unfunded $146 million for special salary rates. The Committee recommends adding $141 million for this purpose in order to maintain the ability of the VA to hire and employ highly qualified medical professionals without diverting funds from other accounts.

Restore One-Percent Productivity Cut.—The proposed budget provides for a "one-percent productivity increase" resulting in a decrease of 1,962 FTEE. This is the fifth consecutive proposed productivity increase for a total decrease over five years of 9,672 FTEE. Testimony before the Committee from VHSRA officials has revealed that such productivity increases are not a result of rational, planned improvements in efficiency. Instead, these decreases are arbitrary and are taken from budget allocations to the medical centers, thus reducing the amount of care that can be delivered to eligible veterans.

A look at the budget history of the VA shows the dramatic results in increased productivity already achieved by the VHSRA. During the last 10 years, the VA medical budget has remained at a strainght line while the number of inpatients treated has grown by 7 percent, the number of outpatient visits is up by 29 percent and the number of nursing home care patients has increased by 63 percent.

The Committee recommends the restoration of the 1,962 FTEE and $68.7 million proposed by the Administration for "productivity increases" in fiscal year 1990. The Committee notes the increased productivity already obtained by the VA and believes that further productivity improvements should not be arbitrarily anticipated, but should reflect actual, specific initiatives demonstrated to result in real producitivy increases.

Restore Proposed Computer Implementation Cut.—In a way similar to the arbitrary productivity improvement, the proposed budget projects "savings" from implementation of the medical information systems of 659 FTEE and $36.2 million and from a computer-based accounting system of 43 FTEE and $0.9 million. This is an arbitrary OMB requirement that new data processing systems show a net savings of 10 percent. Two points underlie consideration of this proposed cut. First, staffing for the implementation of DHCP were not new personnel, but were reprogrammed from other activities. Thus, the "savings" in personnel were achieved at the outset. Second, additional activities specifically related to DHCP have been required of the VA without additional personnel, such as a data processing security program and the need for systems management of the large and sophisticated information system. Price Waterhouse conducted a study of the DHCP system and found that the

bulk of person-time saved by DHCP has been used either for new activities that have not been totally funded or for improved patient care.

The Committee recommends the restoration of these 702 FTEE and $36 million.

Capital Investment.—The proposed budget includes a request for $270 million for equipment acquisition, an apparent increase of $65 million from the fiscal year 1989 level. However, the VA originally proposed to spend $298 million in 1989, so that the 1990 request level is a decreased of $28 million.

The juggling of planned purchase levels obscures the capital investment situation in the VA. Over the past several years, as noted above with regard to fiscal year 1989, capital investment funds were shifted to meet recurring expenses such as salaries. The result is a backlog of needed replacement equipment that approaches $644 million. This equipment, as documented in the Committee's survey of all hospitals, is basic equipment such as X-ray equipment, needed to provide medical services.

Therefore, the Committee recommends restoration of the arbitrary cut in the capital investment account of $39 million and in order to maintain a balanced medical program at the Congressionally mandated personnel level and to avoid further increasing the backlog.

Construction.—The Administration construction request for fiscal year 1990 is $487.6 million, a decrease of $13 million from fiscal year 1989. However, according to testimony received by the Committee at budget hearings, this amount is approximately $450 million below the amount originally requested by the Department of Medicine and Surgery.

Over half of DVA's medical facilities are over 30 years old. Changes in the practice of medicine, the development of new equipment for diagnosis and treatment, the need to create work environments which make more efficient use of scarce medical professionals such as nurses, and the imperative to maintain high-quality care justify a reasonable schedule of capital modernizations, clinical improvements and patient safety modifications. These construction activities require funds and delays are costly. In addition, the VA's recent Capital Facilities Study documented that 69 of 132 VA medical facilities built before 1970 received a fair, poor or failing rating of their physical condition. According to the VA, these ratings indicate that major construction projects affecting major physical systems will be required in the next five years.

The Committee recommends that funds for major construction projects be added as follows: Temple, Texas VA Medical Center bed addition ($46.3 million); three colocations of Regional Offices with Medical Centers at Cleveland, Ohio ($18.6 million), Hartford, Connecticut ($7.3 million) and Montgomery, Alabama ($7.2 million); Marion, Indiana geropsychiatric facility ($33 million); Gainesville, Florida 290-bed psychiatric building ($8.9 million for design) and two nursing homes discussed below.

Extended Care.—The Administration's budget proposes no new nursing home facilities for fiscal year 1990. This is the third year in the last four that no funds for construction of VA nursing home beds have been proposed. The budget projects an increase of 1,016 in average nursing home beds from the fiscal year 1989 level. However, the estimated average operating VA nursing home beds dropped within the fiscal year 1989 budget by 263 nursing home beds from the original estimate.

The budget also proposes conversions of 363 hospital beds to nursing home beds. It is important to note that in fiscal year 1989, 289 hospital beds were proposed for conversions and in fiscal year 1988, 282 hospital beds were proposed for conversions. Of these 571, only 314 have actually been converted and activated.

The projected increase in the elderly population of the United States is being experienced earlier in the veteran population than in the general population. The number of veterans over the age of 65 was 4.6 million in 1985 and is predicted to increase to 7.2 million by 1991 and to peak at 8.9 million veterans in 1999. In 1991, 60 percent of all males over the age of 65 will be veterans. In 1999, 3.8 million veterans will be over the age of 75.

The present VA planning strategy calls for a decreased emphasis on VA-owned-and-operated nursing home beds in favor of increased reliance on privately-operated community nursing home beds and beds operated by the various States through the VA-assisted State home program. The strategy is to meet the need of veterans requiring nursing home care by placing 30 percent in VA beds, 30 percent in State home beds, and 40 percent in community beds. Due to the shortfalls in the fiscal year 1989 budget, VA hospital directors have been forced to curtail placement of veterans in community nursing homes, thus reducing beds available for the care of veterans requiring nursing home care. The projection in the proposed budget is that an additional 11,862 veterans will not receive needed nursing home care in community beds.

The Committee recommends adding funds to construct nursing home care units at the VA Medical Centers in Lake City, Florida (120 beds and $8 million) and Salisbury, North Carolina (120 beds and $9 million).

Medical and Prosthetic Research.—The Administration's FY 1990 budget proposes $197.3 million for Medical and Prosthetic Research, a decrease of $12.9 million and 616 FTEE from fiscal year 1989. This decrease follows several years of fluctuating and generally decreasing research budgets. Testimony received by the Committee from a 40-organization association, the Friends of VA Medical Care and Health Research, indicates that to bring the research budget to fiscal year 1985 levels would require a $235.6 million budget for fiscal year 1990.

In addition to the extraordinary contribution of VA research to new knowledge, the research program is important to the delivery of VA medical care. Testimony received by the Committee from Dr. Kenneth I. Shine, Dean of the University of California School of Medicine and representative of the Association of American Medi-

cal Colleges and Friends of VA Medical Care and Health Research, on February 9, 1989 stated "that the research budget . . . is one of the most important factors in encouraging young people to come to the VA." The Committee recommends the restoration of 616 FTEE which the Administration proposed to cut and recommends an addition of $30 million for this purpose.

Unfunded Special Medical Problems.—The budget proposed for fiscal year 1990 calls for increases of 625 FTEE and $55.3 million for the clinical program in Acquired Immune Deficiency Syndrome (AIDS). Since the beginning of the AIDS epidemic, over 5,800 veterans have been treated by the VA, about 6 percent of the total U.S. AIDS patients. In 1988 alone, 2,161 AIDS patients were treated by the VA; 2,800 new patients are expected in 1989 and 3,600 in 1990 (that is about 300 each month). In addition, two to three times as many patients with conditions related to AIDS and HIV status will seek care from the VA in 1990. Beyond the direct care costs are the costs of implementing the universal blood and body fluid precautions (such as gloves and other clothing protections). The real costs of AIDS treatment to the VA are $130.8 million in fiscal year 1989 (of which $23 million is funded and about $108 million must be absorbed). In fiscal year 1990, the costs are projected to be $164.9 million with approximately $80 million to be absorbed. The Committee's recommendation would leave unfunded approximately $28 million of that amount.

Testimony of the Chief Medical Director at the February 7, 1989, Committee budget hearings revealed that the proposed increase for fiscal year 1990 is in fact a transfer of funds from other VA medical activities to AIDS. The result is a decrease in the quantity of care provided. The Committee supports the recognition in the proposed budget of the impact of AIDS, but recommends that a proportion of the real budget increase proposed in the Federal budget be assigned to meet the significant proportion of AIDS care delivered by the VA.

A similar situation occurs in the proposed fiscal year 1990 budget for programs for the homeless. The VA has developed a comprehensive network of health care services for homeless veterans, including two programs authorized through legislation, the pilot Homeless Chronically Mentally Ill Program and the Domiciliary Care for Homeless Veterans Program. The proposed 1990 budget includes $13.9 million to support about 43 sites under the former authority and $10.9 to support the latter. However, again, as in the case of AIDS, this understates the problem since the proposed fiscal year 1990 increase represents funds taken from other VA programs. The Committee supports the recognition in the proposed budget of the important role the VA plays in meeting the homeless problem, but recommends that real budget increases be allocated to the VA. In that regard, the Committee notes that the authorized funding level provided in the McKinney Act amendments for VA homeless activities is $30 million.

Funds for Prosthetics.—The Committee is aware that funds allocated for prosthetics have been diverted for various recurring and non-recurring operating purposes. Such diversions deny veterans

with serious service-connected disabilities the essential prosthetic service and devices they need to function. Therefore, the Committee strongly believes that the funds allocated for prosthetics should not be considered available for other purposes.

Administration Legislative Proposals.—The proposed budget for fiscal year 1990 includes a legislative proposal to require certain veterans without service-connected disabilities to make a copayment per outpatient visit of $5 and $10; per prescription of $3 and $5 respectively; and $9 per diem for inpatient treatment. These payment requirements would apply to veterans in Category B (non-service-connected veterans with annual incomes between $16,467 and $21,954 for a single veteran) and in Category C (non-service connected veterans with incomes above $21,964 annually for a single veteran). Public Law 99–272 requires Category C veterans to make payments in connection with the receipt of care. It is not clear from the proposal whether the new copayments are additions to or substitutions for those existing requirements. Further, the reduction in the treatment of Category B and C veterans as proposed by the Administration has the effect of substantially reducing the population of veteran patients who would be liable for these payments. The Committee rejects this proposal, but will investigate its particulars as part of the oversight agenda for the 101st Congress.

Another proposed legislative initiative in the Administration's budget is an expansion of the authority to make claims for reimubrsement from veteran-held private health insurance plans for VA care provided to 0–20 percent service-connected veterans. Current law allows such claims only in the case of non-service connected veteran patients. The Committee rejects this proposal, but will investigate its particulars as part of the oversight agenda for the 101st Congress.

Committee Legislative Proposals.—As described throughout this document, pay rates for medical care professionals presents serious problems for recruitment and retention of the high quality medical staff required for the VA. As documented in the Committee's surveys and described in many VA reports including the Chief Medical Director's letter describing the needs for fiscal year 1989 and 1990, the adequacy of nurse pay is particularly serious. Therefore, the Committee intends to take up legislation that deals with recruitment and retention issues during this Session. In particular, legislation will be considered to restructure nurse pay to avoid the planning and funding problems that have kept the VA in a "catch up" position relative to meeting the market rate of pay around the Nation. The estimated costs of such legislation is approximately $26 million in fiscal year 1990.

VETERANS BENEFITS

INCOME SECURITY FOR VETERANS

Compensation.—In fiscal year 1990, it is estimated by the Administration that 2.20 million service-disabled veterans and their dependents will receive monthly compensation under existing legislation totaling $8.9 billion. Approximately 326,000 survivors of veter-

ans whose deaths were service-connected or related to service-connected disabilities will receive an additional $2.33 billion. The total compensation requirement is $11.23 billion.

For fiscal year 1990, legislation is proposed by the Administration for a 3.6 percent indexed cost-of-living increase in compensation payments, effective December 1, 1989, at a cost of $318.1 million. This would bring the total compensation payments for fiscal year 1989 to $11.55 billion. The Administration proposed indexing of compensation, and dependency and indemnity compensation benefits in its 1989 budget request. The Committee rejects the proposal.

Proposed compensation enhancements.—The Committee expects to report legislation providing a 4.9 percent cost-of-living increase, effective December 1, 1989, at a cost of $456.7 million. This cost is based on the Congressional Budget Office baseline estimate of the expected change in the Consumer Price Index.

The Committee also proposes to amend eligibility criteria applicable to surviving spouses of certain service-connected disabled veterans rated totally disabled at death for benefits which may be paid as if the veterans' deaths were service-connected. Current law provides that such benefits may be paid to a veteran's surviving spouse if he or she was married to the veteran for not less than two years immediately preceding the veteran's death or for no specified period if a child is born of the marriage. The Committee's initiative would reduce the duration-of-marriage requirement to a period of one year, in conformity with the marriage requirement applicable to surviving spouses of veterans whose deaths are service-connected, for the purpose of determining such individuals' eligibility for dependency and indemnity compensation.

Pension.—Approximately 577,610 veterans and 538,990 survivors will receive monthly pensions totaling $3.99 billion in 1990. Pension payments are based upon financial need, and the budget estimate includes an indexed cost-of-living adjustment of 3.6 percent, effective December 1, 1989, at a cost of $101.1 million.

Life insurance.—The life insurance programs administered by the VA will provide coverage of nearly $214 billion for approximately 6.7 million servicepersons and veterans in fiscal year 1990.

Burial benefits.—The burial benefits program provides for the payment of an allowance of $300 (plus transportation charges) to reimburse in part, the burial and funeral expenses of an eligible deceased veteran. This allowance is paid in the case of a deceased veteran who was in receipt of VA disability benefits at the time of death, indigent wartime veterans who die without sufficient resources for burial, or where death occurs while the veteran is receiving care at VA expense. This program also provides for (1) the payment of an allowance of $150 for a cemetery plot where an eligible veteran is not buried in a national cemetery or other cemetery under the jurisdiction of the United States; (2) the payment of a burial allowance up to $1,500 when a veteran dies as the result of service-connected disability; (3) a flag to drape the casket of each deceased veteran entitled thereto; (4) a headstone or marker for the

grave of the veteran and in certain cases eligible dependents or; (5) an allowance towards the headstone purchase.

In 1988, 123,579 veterans' survivors received a burial allowance at a cost of $47.035 million; 334,891 veterans' survivors received a plot allowance totaling $51.055 million; burial allowances for 9,017 veterans who died of service-connected causes totaled $9.072 million; 373,028 burial flags were issued at a cost of $10.428 million; 267,660 markers were furnished at a total cost of $19.108 million; and 57,771 marker allowances were issued at a total cost of $4.260 million.

Administration Legislative Proposals.—Legislation is proposed by the Administration to make the eligibility requirements for the burial plot allowance the same as those for the basic burial allowance beginning in fiscal year 1990, that is—limit eligibility to veterans with a service-connected disability, veterans in receipt of pension, and certain other limited categories of wartime veterans. This benefit would also be payable for veterans who are buried in State veterans cemeteries. At the time the Committee received the Administration's proposal in the fiscal year 1982 budget to change eligibility requirements for the basic $300 burial allowance, the Office of Management and Budget stated that it did not want to simultaneously change the eligibility requirements for the plot allowance. OMB wished to keep this benefit intact so that the death certificates accompanying applications for the plot allowance could be used by the Government for statistical and research purposes. The Committee concurred with OMB, and is unaware of any change in this requirement. Therefore, the Committee rejects this proposal.

Readjustment Benefits

Educational Assistance.—The President's budget includes a recommendation to increase dependents' assistance allowances (Chapter 35) and vocational rehabilitation subsistence allowances (Chapter 31) by 5 percent effective January 1, 1990, resulting in additional obligations of $5.2 million in 1990. However, the effect of this proposal is not reflected in the 1990 budget request. Benefits provided under Chapter 31 and Chapter 35 have not been increased since October 1, 1984. The Committee accepts this proposal.

The Montgomery GI Bill, established as a permanent program under Public Law 100-48, continues to be very successful. The following participation rates for December 1988 demonstrate the popularity of the program among new active duty recruits: Army—91.8 percent; Navy—77.8 percent; Air Force—74.1 percent; Marine Corps—85.8 percent; DOD total—81.2 percent. Since the implementation of the Montgomery GI Bill on July 1, 1985, more than 646,000 active duty servicemembers have chosen to participate in the program. Additionally, over 100,000 members of the Selected Reserve have gone to school under the Montgomery GI Bill.

A provision of the GI Bill for active duty personnel requires that participants agree to a $100/month reduction in their basic pay for 12 months. Through October 31, 1988, $570,642,785.19 has been deposited in the General Treasury as a result of the pay reduction.

In order to maximize the effectiveness of the Montgomery GI Bill, the Committee intends to amend the program to permit those individuals training under the GI Bill program for the Selected Reserve to pursue the same types of programs as those approved for active duty GI Bill participants. Under current law, only undergraduate courses at institutions of higher learning are approved for members of the Reserve and National Guard. The Committee expects to expand approved programs of study to include training at technical schools, on-job training and graduate school. CBO estimates the FY 1990 costs for this amendment to be $71 million in budget authority and $24 million in outlays. Although these are Function 050 costs (Department of Defense), the Committee feels it is important to point out the necessity for providing new entitlement authority for this provision.

Loan Guaranty Program

The Loan Guaranty Program provides housing credit assistance to eligible veterans and service personnel through guarantees of loans made by private lenders and through direct loans to severely disabled veterans on more liberal terms than generally available to non-veterans, without the assumption of undue risks by the Government.

The Loan Guaranty Revolving Fund finances the operation of the Loan Guaranty Program, excluding administrative costs. The guarantee may be applied to buying, building or repairing a home, condominium or manufactured housing unit.

During 1988, 234,709 loans were guaranteed. The VA estimates that loan guaranty activity will decline. The projection of 177,950 guaranteed loans for fiscal year 1990 reflects this assumption.

The Loan Guaranty program has provided over 12 million veterans with the benefit of homeownership. Since the creation of the Revolving Fund, the program did not require appropriated funds until FY 1984. The direct loan program provided revenue as needed. Since that time, funding for the program has been as follows:

[In thousands of dollars]

Fiscal Year	Approp.	Transf. Dir. Ln.	Other	Total
1984	$100,000	$230,000	$160,000	$490,000
1985	306,600			306,600
1986	200,000			200,000
1987	100,000	110,000		210,000
1988	916,400		200,000	1,116,000
1989	969,800			969,800
1990	453,000			

The Administration has indicated it will be forwarding a supplemental request shortly for $311.8 million. Combined with the $658 million already appropriated to the Revolving Fund this year, the

Fund will require over $969.8 million in external financing to remain solvent during fiscal year 1989.

Property acquisition and claim costs account for the majority of all expenditures from the Fund. These costs are projected to be $2.4 billion. The cash sale of properties is estimated to generate $893.8 million; $509.8 million from loan sales proceeds and $136.5 million from funding fee collections.

The budget contains an appropriation request for $453 million. Basically, workloads are estimated to decrease slightly from the 1989 level.

ADMINISTRATION AND COMMITTEE LEGISLATIVE PROPOSALS

1. The Administration's budget again proposes to repeal the Administrator's authority to set the maximum interest rate at which lenders can make guaranteed loans. Instead, the lender and the veteran would be authorized to negotiate "a reasonable interest rate".

Under current law, the Administrator has the authority to set the maximum interest rate which may be charged by a lender to a veteran homebuyer. Lenders are free to offer loans below this maximum rate. Yet loans below the maximum rate are rarely seen, except in cases where the rate is being subsidized by a Government agency, or where a developer in a new housing project has purchased down the rate.

All veterans groups have testified against this proposal over the last several years. They believe that veterans would pay higher rates than they do now with an administered rate. This will erode veterans' purchasing power, meaning that fewer veterans will be able to afford housing. It could also cost these veterans who choose to participate in the program millions of additional dollars since negotiated rates at a higher level will translate into higher mortgage payments for veterans throughout the term of the loan.

In addition to the veterans' groups testifying against this Administration proposal, professional groups such as the National Association of Homebuilders and Society of Real Estate Appraisers have also been adamantly opposed to this concept. Witnesses have also testified that the no downpayment feature of the home loan program could be jeopardized. Some groups also contend that the VA administered rate provides an important benchmark for mortgage interest rates on a national level.

The use of "negotiated" interest rates could increase VA claim costs and adversely affect the Loan Guaranty Revolving Fund. When a VA-guaranteed loan goes to foreclosure, the lender's claim is paid with interest based on the mortgage rate. Since it is expected that "negotiated" interest rates would be higher than VA established maximum rates, the VA's claims costs would increase, resulting in increased outlays from the Loan Guaranty Revolving Fund. Because the Government assumes most of the risk on the guaranteed mortgage, it has an obligation to the taxpayer to moderate interest rates to the maximum extent possible to minimize its

financial exposure. Accordingly, the Committee again rejects this proposal.

2. The Administration is resubmitting a legislative proposal that will identify the grant equivalent subsidy of Federal Credit Programs. A grant equivalent subsidy occurs whenever the Government provides credit to borrowers on more favorable terms than those available in the private sector. The proposal will require subsidy payments to a central revolving fund at Treasury prior to making a loan. The Agency will continue to administer the program, but the Treasury will be the central financing mechanism for new Federal loans. The subsidy appropriation of $833 million is estimated by OMB to be 5.2 percent for guaranteed loans and 6.6 percent for vendee (direct loans). Under Credit Reform, the Fund will no longer establish vendee direct loans under its account, but rather will pay a grant equivalent subsidy to the new Treasury account for each vendee direct loan closed. It should be noted that this will create a loss of loan sale revenue. The Committee is unsure as to how some of the provisions of this initiative will be implemented and does not endorse the proposal.

3. Legislation is being proposed to permit a holder of a manufactured housing loan to submit a claim upon receipt of VA's resale price. Any loss on the eventual resale would be absorbed by the holder, and any profit would be retained by the holder.

VA experience in reviewing GI manufactured home loan terminations indicates that repossessed homes are not always disposed of in a prompt and efficient manner. Lenders must rely on dealers to sell these homes in most areas. The dealers have many such homes to sell, and little financial incentive to do so, since a larger profit is obtained in their sale of new homes. Delays in resale result in continued carrying costs for the lender, and the eventual resale proceeds may be reduced due to declining property value and increased possibility of vandalism.

If lenders were permitted to file their claims upon receipt of VA's resale price, these problems would be avoided. The VA calculates that this procedure will reduce claims since VA would not reimburse lenders for costs incurred after repossession, including accrued interest (VA normally allows 60–a90 days' interest after repossession) and sales commission.

VA's experience also shows that VA's minimum resale price, which represents the actual value of the home at repossession, generally equals or exceeds the eventual resale price. Accordingly, adoption of this procedural modification would generally result in an unchanged or reduced debt to the veteran following repossession. Lender costs would also be reduced. The Committee does not oppose this proposal.

4. Legislation is also being proposed to grant the Secretary more flexibility to sell loans with or without recourse. Current legislation prohibits the selling of loans after October 1, 1989 without recourse, unless they can be sold at par. In effect, VA is precluded from selling loans without recourse.

In 1988, the VA managed two home loan sales without offering repurchase agreements. In order to attract sufficient investor interest in these assets, the VA was forced to adopt a two-tiered approach, with a subordinate pool of loans set aside to cover any losses due to delinquencies or foreclosures attributable to loans securing the senior certificates. In the first sale, the government realized 58 percent of the face value of the loans sold and 55 percent of the face value of the loans offered at the second sale. According to the VA's financial adviser, Kidder, Peabody & Co., the VA would have realized 92 and 91 percent respectively of the face value of the loans at the time of the sale if they had been sold with repurchase agreements. Thus, sales without recourse resulted in a loss of cash proceeds to the United States Treasury of over $180 million. As a result of this policy and the need for higher appropriations to meet program requirements, the deficit was increased by almost the same amount. Although the Committee will be holding hearings on loan asset sales, it will not support any initiatives which will cause further losses in revenues.

5. Legislation will be proposed to extend the 1 percent funding fee on a permanent basis. Under current law, the 1 percent funding fee expires on October 1, 1989. Last year, the House passed legislation which would address the solvency of the VA Home Loan Guaranty Program. This new mortgage indemnity program would require a 1¼ percent fee from veterans and a contribution from the Federal Government of ¼ percent for three years. It is expected that the Committee will again report similar legislation. It should be noted that although this initiative contains $37 million in budget authority for the first year, it saves $208 million in outlays. The second year, the bill saves $22 million in budget authority and $260 million in outlays. Over a ten-year period, CBO estimates this measure would result in approximately $3 billion in savings compared to the existing program.

ADMINISTRATIVE PROPOSAL

In 1984, the Congress set forth statutory criteria specifying the circumstances under which the VA would be required to acquire or be precluded from acquiring a property after a liquidation sale. In connection with the VA's calculation of the costs of acquiring and disposing of properties, the conferees made it clear in the conference report that they did not intend to change the VA's current policy of not considering interest costs that the United States would incur if it were necessary for the Government to borrow the funds for a particular acquisition. Notwithstanding this position, if the Administrator determined that a change to this policy was warranted, he was required, not later than the February 1 preceding the fiscal year in which a proposed change would take effect, to provide the Veterans' Affairs Committees with notice of the change.

Effective October 1, 1989, an anticipated change in VA regulations would include the cost of government borrowing in the determination of whether to acquire or not acquire foreclosed property. It is estimated VA will acquire approximately 10 percent fewer properties under this procedure.

The Committee has received notice of this proposed change and may address this issue when it considers legislation to extend this formula.

UNITED STATES COURT OF VETERANS APPEALS

On November 18, 1988, the President signed legislation establishing a new Court of Veterans Appeals to review administrative decisions of the Department of Veterans Affairs on claims for benefits. It is estimated that this court, which will consist of up to seven judges, may receive 5,000 petitions during its first year of operation. Operating costs will far exceed the modest amount requested for this court in the President's budget ($1.5 million for fiscal year 1990 and $1.2 million for fiscal year 1989). Based on estimates provided by the General Services Administration, the Committee recommends that $6.3 million in budget authority be made available for the court in fiscal year 1990.

SUMMARY OF RECOMMENDED CHANGES TO THE 1990 ADMINISTRATION BUDGET

[In millions of dollars]

	Budget Authority	Outlays	FTEE
Medical Care			
Administration Budget	$10,741	$10,703	186,194
Committee recommendations:			
Add amounts as detailed in Dr. Gronvall's 1/25/89 letter	797	685	8,526
Restore 1% "Productivity" cut	69	59	1,962
Fully fund special pay requirements	141	126	.....
Restore arbitrary equipment cut	39	34	.....
Restore computer implementation cut	36	31	702
Subtotal—Committee recommendations	1,082	935	11,190
Total	11,823	11,637	197,384
Major Construction			
Administration Budget	530	627	.....
Committee recommendation:			
Add 8 "highest-priority" major construction projects	138	6	.....
Total	668	633	.....
Medical Research			
Administration Budget	197	201	4,106
Committee recommendation:			
Maintain 1989 activity levels	30	32	616
Total	227	233	4,722
General Operating Expenses and Inspector General			
Administration Budget	826	817	17,017
Committee recommendation:			
Maintain Board of Veterans' Appeals at current levels	1	1	19
Improve timeliness of DVB operations; keep modernization on schedule	23	21	720
Provide appropriate staffing for NCS	1	1	31
Total	851	840	17,787
(MEMO: Savings to Loan Guaranty Revolving Fund resulting from staff enhancements)	−82	−82	.....

FUNCTION 700: VETERANS BENEFITS AND SERVICES—BUDGET AUTHORITY

CURRENT SERVICES LEVEL FOR 1989

[In millions of dollars]

	1989 Appropriation (adjusted)	Recommended Supplementals	Total Adjusted 1989	Independent Budget 1989 Re-estimated
701—Income Security:				
Compensation	$10,682	$623	$11,305	[1] $15,386
Pensions	3,865	66	3,931	.....
Burial and other	137	13	150	.....
Insurance (Net of receipts)	1,044	.....	1,044	1,044
Subtotal 701	15,728	701	16,429	16,429
702—Veterans Education:				
Veterans job training				60
Other education (Net of receipts)	387	22	409	409
Subtotal 702	387	22	409	469
703—Hospital and Medical Care:				
Medical care	10,543	[2] 432	10,975	10,953
Construction	543	[2] 67	610	544
Medical administration and other	48	.....	48	49
Research	210	.....	210	225
Third party reimbursement	—138	.....	—138	—138
Subtotal 703	11,206	499	11,705	11,633
704—Housing:				
Existing law	658	312	970	970
Subtotal 704	658	312	970	970
705—Other benefits and services:				
General operating expenses	774	[2] 21	795	821
Other	109	.....	109	109
Subtotal 705	883	21	904	930
Total Function 700	$28,862	$1,556	$30,417	$30,432

[1] Independent Budget estimate does not identify separate amounts for Compensation, Pension, and Burial Benefits

[2] Supplementals for Medical Care, Construction, and General Operating Expenses are recommended by the Committee, but not by the Administration

FUNCTION 700: VETERANS BENEFITS AND SERVICES

BUDGET AUTHORITY FOR 1990

[In millions of dollars]

	1989 Adjusted	1990 CBO baseline	President's Recommendation	Committee Recommendation	Committee +/− President	Committee +/− CBO
701—Income Security:						
Compensation	$11,305	$11,233	$11,233	$11,233	.....	.....
Proposed legislation	.....	457	457	457	.....	.....
Pensions	3,931	3,927	3,927	3,927	.....	.....
Burial and other	150	149	149	149	.....	.....
Proposed legislation	.....	.....	−30	.....	30	.....
Insurance (Net of receipts)	1,044	1,051	1,051	1,051	.....	.....
Subtotal 701	16,429	16,817	16,787	16,817	30	.....
702—Veterans Education:						
Education Programs (Net of receipts)	409	248	248	248	.....	.....
Proposed legislation	.....	.....	6	6	.....	6
Subtotal 702	409	248	254	254	.....	6
703—Hospital and Medical Care:						
Medical care	10,975	11,308	10,741	11,823	1,082	515
Proposed legislation	.....	.....	−40	.....	40	.....
Construction	610	567	530	668	138	101
Medical administration and other	48	51	49	51	2	.....
Research	210	230	197	227	30	−3
Third party reimbursement	−138	−185	−224	−185	39	.....
Subtotal 703	11,705	11,972	11,253	12,584	1,331	613
704—Housing:						
Existing law	970	1,415	1,415	1,415	.....	.....
Proposed legislation including credit reform	.....	.....	114	−45	−159	−45
Subtotal 704	970	1,415	1,529	1,370	−159	−45
705—Other benefits and services:						
General operating expenses and IG	795	834	826	851	25	17
Proposed legislation	.....	.....	−4	.....	4	.....
Other	109	113	104	113	9	.....
Subtotal 705	904	947	926	964	38	17
Total Function 700	$30,417	$31,399	$30,749	$31,989	$1,240	$590

FUNCTION 700: VETERANS BENEFITS AND SERVICES

OUTLAYS FOR 1990

[In millions of dollars]

	1989 Adjusted	1990 CBO baseline	President's Recommendation	Committee Recommendation	Committee +/− President	Committee +/− CBO
701—Income Security:						
Compensation	$10,862	$10,713	$10,713	$10,713		
Proposed legislation		412	412	412		
Pensions	3,859	3,797	3,797	3,797		
Burial and other	150	149	149	149		
Proposed legislation			−30		30	
Insurance (Net of receipts)	747	805	805	805		
Subtotal 701	15,617	15,876	15,846	15,876	30	
702—Veterans Education:						
Veterans job training	20	2	2	2		
Other education	395	289	289	289		
Proposed legislation			5	5		5
Subtotal 702	415	291	296	296		5
703—Hospital and Medical Care:						
Medical care	10,754	11,190	10,703	11,637	934	447
Proposed legislation			−40		40	
Construction	723	627	626	632	6	5
Medical administration and other	47	51	48	51	3	
Research	206	226	201	228	27	2
Third party reimbursement	−138	−185	−224	−185	39	
Subtotal 703	11,593	11,909	11,314	12,363	1,049	454
704—Housing:						
Existing law	1,088	1,498	1,498	1,498		
Proposed legislation including credit reform			114	−290	−404	−290
Subtotal 704	1,088	1,498	1,612	1,208	−404	−290
705—Other benefits and services:						
General operating expenses and IG	793	828	817	840	23	12
Other	90	108	111	108	−3	
Subtotal 705	883	936	928	948	20	12
Total Function 700	$29,596	$30,510	$29,996	$30,691	$695	$181

SUMMARY OF PROPOSED LEGISLATIVE CHANGES WITH CBO COST ESTIMATES

[In millions of dollars]

		1990	1991	1992
A: Presidential Legislative proposals recommended by Committee				
701—Income Security				
Compensation COLA 4.9 percent (New Entitlement Authority)	BA	457	1,011	1,562
	O	412	965	1,517
702--Education, Training and Rehabilitation				
Increase dependent's assistance allowances and vocational rehabilitation subsistence allowance by 5 percent (New Entitlement Authority)	BA	6	7	7
	O	6	7	7
B: Legislative proposals recommended by Committee				
701—Survivors Compensation				
Conform marriage eligibility to DIC	BA	*	*	*
	O	*	*	*
703—Health Care				
Increase health care professional recruitment and retention incentives	BA	26	67	67
	O	25	65	67
704—Veterans Housing				
Revise VA home loan benefit to mortgage indemnity	BA	37	−22	−265
	O	−208	−260	−287
Increase loan servicing and property management activity	BA	−82	−90	−100
	O	−82	−90	−100
Memo: Cost to subfunction 705	BA	9	10	10
	O	9	10	10
C: Presidential legislative proposals not recommended by Committee				
701—Change eligibility for plot allowance	BA	−30	−30	−30
	O	−30	−30	−30
702—Repeal authority to make education loans	BA	0	0	0
	O	*	*	*
703—Charge copayments for medical care to certain veterans	BA	−40	−45	−50
	O	−40	−45	−50
Bill insurers of certain veterans with service-connected disabilities	BA	−39	−45	−49
	O	−39	−45	−49
704—Make the 1 percent funding fee permanent	BA	−159	−153	−151
	O	−159	−165	−161
Sell loans without recourse	BA	−496	−553	−584
	O	−496	−553	−584
Revise manufactured home claim procedure and implement loan production system	BA	−4	−5	−5
	O	−4	−5	−5
Credit reform (Administration estimate)	BA	882	792	637
	O	882	793	637

* Less than $500,000

APPENDIX

The following table indicates total Federal outlays, veterans' benefits and service outlays (function 700) and the percentage for veterans' benefits and services for fiscal years 1977 through 1990.

TABLE 1
Total Federal Outlays and Veterans' Benefits and Service Outlays
Fiscal Years 1977-1990
(in millions of dollars)

Fiscal year	Total Federal outlays	Veterans' benefits and services	Veterans as percent of outlays
1977	$ 409,203	$18,038	4.4
1978	458,729	18,978	4.1
1979	503,464	19,931	4.0
1980	590,920	21,185	3.6
1981	678,209	22,991	3.4
1982	745,706	23,958	3.2
1983	808,327	24,846	3.1
1984	851,781	25,614	3.0
1985	946,316	26,292	2.8
1986	990,258	26,356	2.7
1987	1,603,830	26,782	2.7
1988	1,064,044	29,428	2.8
1989 (est.)	1,137,030	29,218	2.6
1990 (est.)	1,151,848	29,872	2.6

The above table indicates that in 1977 the percentage of total Federal outlays spent on veterans' benefits and services was 4.4 percent. Since that time, there has been a general decrease with an estimate for fiscal year 1990 of 2.6 percent.

Source: Office of Management and Budget. Historical Tables. Budget of the United States Government. Fiscal Year 1990.

Federal outlays for veterans' benefits and services have increased only by a ratio of 3 to 1 compared to 316 to 1 for Social Security; 195 to 1 for health: 164 to 1 for education, training, employment and social services; 33 to 1 for income security; and 15 to 1 for Medicare.

TABLE 2
Federal Outlays in Human Resources Programs
Selected Years 1950-1990
(in millions of dollars)

Fiscal year	Education, training, employment and social services	Health	Social security	Medicare a/	Income security	Veterans benefits and services
1950	$ 241	$ 268	$ 781	$	$ 4,097	$ 8,834
1955	445	291	4,427		5,071	4,675
1960	968	795	11,602		7,378	5,441
1965	2,146	1,791	17,460		9,455	5,723
1970	8,634	5,907	30,270	6,213	15,645	8,679
1975	16,002	12,930	64,658	12,875	50,160	16,599
1980	31,843	23,169	118,547	32,090	86,540	21,185
1985	29,342	33,542	188,623	65,822	128,200	26,292
1990 (est.)	39,531	52,177	246,724	94,918	136,788	29,872
Ratio of 1990 to 1950	164 to 1	195 to 1	316 to 1	15 to 1	33 to 1	3 to 1

a/ The Medicare program was enacted in 1965; this ratio is for 1990 to 1970.

Source: Office of Management and Budget. Historical Tables. Budget of the United States Government. Fiscal year 1990.

Federal spending for the health function and Medicare program is expected to total $147,095 million in FY 1990. The following table displays the total Federal outlays for health, Medicare and veterans' hospital and medical care, and the percentage attributable to veterans. There has been a steady decline of the percent of these Federal outlays attributed to veterans. from fiscal years 1977 to 1990.

TABLE 3
Federal Outlays for Health, Medicare and Veterans' Hospital and Medical Care, Fiscal Years 1977-1990
(in millions of dollars)

Fiscal year	Outlays for health a/	Outlays for Medicare	Outlays for veterans' hospital and medical care	Total	Veterans as percent of total
1977	$ 17,302	$ 19,345	$ 4,708	$ 41,355	11.4
1978	18,524	22,768	5,254	46,546	11.3
1979	20,494	26,495	5,611	52,600	10.7
1980	23,169	32,090	6,515	61,774	10.5
1981	26,866	39,149	6,965	72,980	9.5
1982	27,445	46,567	7,517	81,529	9.2
1983	28,641	52,588	8,272	89,501	9.2
1984	30,417	57,540	8,861	96,818	9.2
1985	33,542	65,822	9,547	108,911	8.8
1986	35,936	70,164	9,872	115,972	8.5
1987	39,968	75,120	10,266	125,354	8.2
1988	44,490	78,878	10,842	134,210	8.1
1989 (est.)	49,761	86,734	11,233	147,728	7.6
1990 (est.)	52,177	94,918	11,140	158,235	7.0

a/ Outlays are from budget function 500, which does not include Medicare, Veterans' Administration or Defense Department spending for health care.

Source: Office of Management and Budget. Historical Tables. Budget of the United States Government. Fiscal year 1990.

The following table provides Federal outlays for veterans' benefits and services as a percent of Gross National Product (GNP) for fiscal years 1977-1990 (estimated). As a percentage of GNP, the cost of veterans' benefits and services has steadily declined, from 0.93 in 1977 to an estimated 0.55 in 1990.

TABLE 4
Federal Outlays for Veterans' Benefits and Services as a Percent of Gross National Product
Fiscal Years 1977-1990

Fiscal year	Percent of GNP
1977	0.93
1978	0.87
1979	0.81
1980	0.79
1981	0.77
1982	0.76
1983	0.75
1984	0.69
1985	0.67
1986	0.63
1987	0.60
1988	0.62
1989 (est.)	0.57
1990 (est.)	0.55

Source: Office of Management and Budget. Historical Tables. Budget of the United States Government. Fiscal year 1990.

BUDGET AUTHORITY
1981-1990
(dollars in millions)

Appropriation/Fund Account	ACTUALS 1981	1982	1983	1984	1985	1986	1987	1988	ESTIMATES 1989	1990
Federal funds:										
Current Budget Authority:										
Benefit programs:										
Compensation 1/	$8,529.793	$9,590.493	$9,565.916	$9,952.512	$10,232.458	$10,429.506	$10,504.963	$10,797.500	$11,371.649	$11,225.900
Contract authority (perm., indef.)	...	...	...	...	...	...	...	67.049	...	11,225.900
Liquidation of contract authority	...	...	...	...	...	...	...	...	-67.049	-11,225.900
Pensions 1/	3,794.177	4,047.600	3,741.634	3,916.000	3,809.870	3,850.179	3,794.219	3,825.700	3,930.900	3,989.000
Contract authority (perm., indef.)	...	...	...	...	...	...	...	...	...	3,989.000
Liquidation of contract authority	...	...	...	...	...	...	...	...	...	-3,989.000
Burial benefits and miscellaneous assistance	207.686	140.057	122.250	128.388	132.572	129.314	123.318	141.687	153.782	152.606
Contract authority (perm., indef.)	...	...	...	...	...	...	...	3.982	...	...
Liquidation of contract authority	...	...	...	...	...	...	...	...	-3.982	...
Readjustment benefits	2,349.673	1,964.100	1,666.800	1,443.200	1,130.800	895.569	763.250	675.700	619.812	434.100
Contract authority (perm., indef.)	...	...	...	...	...	...	...	13.312	...	...
Liquidation of contract authority	...	...	...	...	...	...	...	...	-13.312	...
Veterans insurance and indemnities	5.406	9.350	6.400	7.400	11.000	9.745	4.770	14.290	13.470	13.940
Reinstated entitlement program for survivors	...	...	...	51.000	...	...	...	...	...	...
Veterans job training	...	...	...	130.000	...	35.000	30.000	...	...	...
Loan guaranty revolving fund	...	...	...	260.000	306.600	200.000	100.000	1,094.670	969.800	453.000
Vocational rehabilitation revolving fund	1.250	...	...	...	...	...	...	...	...	...
Total benefit programs	14,887.973	15,751.600	15,103.000	15,888.500	15,623.300	15,549.313	15,320.520	16,633.890	16,975.070	16,268.546
Medical programs:										
Medical care	6,339.196	7,101.028	7,773.254	8,244.414	8,941.169	9,130.137	9,728.203	10,151.387	10,542.546	10,741.431
Medical and prosthetic research ..	140.070	140.855	154.839	217.680	192.695	181.127	212.798	192.899	210.241	197.310
Medical administration and miscellaneous operating expenses	52.809	69.369	56.420	66.552	67.891	51.222	41.769	46.628	47.909	48.541
Grants for construction of State extended care facilities	15.000	15.840	18.000	18.000	34.500	20.822	42.400	40.320	42.000	42.000
Grants to the Republic of the Philippines	1.200	1.000	.500	...	.500	.474	.500	.480	.500	.500
Total medical programs	6,548.475	7,328.092	8,003.013	8,547.146	9,236.755	9,383.762	10,025.670	10,431.714	10,843.196	11,029.782
Construction programs:										
Construction, major projects	261.614	372.270	670.792	345.692	568.196	485.544	382.708	402.884	363.040	365.849
Construction, minor projects	108.900	102.010	141.748	185.378	199.823	95.077	80.000	115.942	111.596	114.699
Parking garage revolving fund	...	...	...	...	...	...	26.000	3.916	26.000	7.075
Nursing home revolving fund	...	...	...	...	...	...	...	...	...	...
Total construction programs	370.522	474.280	812.540	531.070	768.017	580.621	488.708	522.742	500.636	487.623
General operating expenses and Misc.										
General operating expenses	643.251	682.057	690.152	715.676	753.954	713.819	770.500	774.810	774.316	803.559
Office of Inspector General	...	...	...	...	...	...	...	...	...	22.249
Grants for the construction of State veterans cemeteries	5.000	...	2.500	3.000	5.000	2.839	...	...	9.000	4.356
Total GOE & miscellaneous	648.251	682.057	692.652	718.676	758.954	716.658	770.500	774.810	783.316	830.164

BUDGET AUTHORITY
1981-1990
(dollars in millions)

Appropriation/Fund Account	ACTUALS 1981	1982	1983	1984	1985	1986	1987	1988	ESTIMATES 1989	1990
Federal funds (continued):										
Total appropriations (adjusted)	22,455.221	24,216.029	24,611.205	25,685.392	26,387.026	26,230.374	26,805.398	28,363.176	29,102.218	28,616.115
Proposed legislation:										
Compensation	...	...	...	...	...	...	...	...	...	318.100
Burial benefits	...	...	...	...	...	...	...	...	...	-36.500
Readjustment benefits	...	...	...	...	...	...	...	...	...	5.200
Loan guaranty revolving fund 2/	...	...	...	...	...	...	...	...	...	-1,162.165
Medical care	...	...	...	...	...	...	...	...	...	-.718
General operating expenses	...	...	...	...	...	...	...	...	...	-4.400
3rd Party Reimbursements & Co-Payments	...	...	...	...	...	...	...	...	...	-85.836
Credit Reform:										
Loan guaranty revolving fund	...	...	...	...	...	...	...	...	...	49.265
Loan guaranty revolving fund subsidies	...	...	...	...	...	...	...	...	...	833.025
Direct loan revolving fund subsidies	...	...	...	*	...	...	...	...	...	.076
Vocational rehabilitation revolving fund subsidies	...	...	...	...	...	...	...	...	...	.141
Total proposed legislation	...	...	...	...	...	...	...	...	...	-83.812
Deduct: Proprietary receipts from the public	-2.942	-3.476	-77.510	-59.070	...	-113.253	-228.546	-338.924	-383.000	-539.000
Permanent Budget Authority:										
Loan guaranty revolving fund 3/	...	...	...	...	...	...	...	389.259	...	910.800
Total federal funds	22,452.279	24,212.553	24,533.695	25,626.322	26,387.026	26,117.121	26,376.852	28,413.511	28,719.218	28,904.103
Trust funds:										
Post-vietnam era veterans education account	142.245	161.057	222.315	224.776	290.399	323.875	233.106	274.747	208.370	164.773
General post fund	7.707	9.942	10.667	13.447	11.521	13.996	21.431	20.294	21.000	21.500
National service life insurance	1,104.104	1,163.633	1,202.072	1,248.781	1,304.888	1,367.013	1,390.514	1,406.849	1,421.036	1,419.330
U.S Government life insurance	34.152	31.209	26.268	23.279	21.556	19.644	17.352	16.364	14.680	12.960
Total trust funds (gross)	1,288.208	1,365.841	1,461.322	1,510.283	1,628.364	1,724.528	1,662.603	1,718.254	1,665.086	1,618.563
Deduct: Proprietary receipts from the public	-600.967	-612.103	-605.105	-617.028	-636.704	-650.226	-588.813	-515.598	-444.990	-405.580
Total trust funds (net)	687.241	753.738	856.217	893.255	991.660	1,074.302	1,073.790	1,202.656	1,220.096	1,212.983
Deduct: Intragovernmental transactions	-6.640	-21.521	-65.911	-51.008	-80.412	-116.350	-87.977	-184.197	-168.539	-153.811
Total Department Veterans Affairs	$23,132.880	$24,944.770	$25,324.001	$26,468.569	$27,298.274	$27,075.073	$27,362.665	$29,431.970	$29,770.775	$29,963.275

1/ The contract authority shown for 1988 and 1989 is in compliance with the General Accounting Office decision requiring all non-discretionary costs to be obligated, absent available funding. The 1988 contract authority was liquidated in 1989 from appropriated funds.

2/ Includes savings of $21.6 million for the Loan Production System (LPS). Savings are net of the $1.5 million being requested in 1990 and are shown under proposed legislation to recognize the approval required under P.L. 100-689, before implementing the system.

3/ In 1988 and 1990, Loan guaranty revolving fund includes $389.3 million and $910.8 million, respectively, for sale of loans with recourse (permanent authority).

BUDGET OUTLAYS

1981-1990

(dollars in millions)

Appropriation/Fund Account	ACTUAL								ESTIMATES	
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Federal funds										
Benefit programs:										
Compensation	$8,425.760	$9,276.429	$9,843.853	$9,915.741	$10,243.044	$10,416.201	$10,502.353	$11,251.859	$10,796.200	$11,235.000
Pensions	3,755.107	3,879.396	3,893.900	3,874.220	3,841.865	3,874.368	3,793.200	3,934.821	3,924.300	3,952.900
Burial benefits and miscellanous assistance	208.135	140.060	122.250	128.388	132.572	121.909	130.730	141.674	149.618	152.570
Readjustment benefits	2,332.121	2,005.365	1,713.702	1,408.267	1,173.667	918.056	776.401	700.036	620.000	451.400
Veterans insurance and indemnities	8.714	9.255	6.629	7.167	10.916	9.936	4.856	13.866	9.990	18.880
Reinstated entitlement program for survivors	...	...	...	44.802	-15.326	9.856	-2.845	-.755	8.789	...
Veterans' job training	...	...	...	17.078	68.838	34.192	30.005	25.252	19.585	2.150
Loan guaranty revolving fund	277.820	183.027	239.268	369.847	278.462	162.769	387.858	1,218.842	1,111.900	1,457.900
Direct loan revolving fund	-128.274	-62.266	-139.764	-44.573	-40.675	-28.669	-33.064	-79.804	-23.900	-18.000
Service-disabled veterans insurance fund	-.485	-2.563	.432	-.395	-3.168	-2.533	1.984	-3.093	6.713	-.880
Veterans reopened insurance fund	-13.778	-18.659	-22.475	-15.864	11.417	40.123	-7.580	-5.041	-2.990	-.110
Education loan fund	.987	-5.187	-6.577	-6.780	-6.325	-6.248	-9.871	-6.336	-6.917	-6.802
Vocational rehabilitation revolving fund	-.037	.059	-.021	.024	-.041	-.061	-.012	.105	-.001	-.011
Servicemen's group life insurance fund	.118	-39.998	-39.751	-27.010	-19.750	-5.726	-12.879	-2.910	-4.240	13.990
Total benefit programs	14,866.188	15,364.918	15,611.446	15,670.912	15,675.496	15,544.173	15,563.337	17,188.486	16,609.047	17,258.977
Medical programs:										
Medical care	6,320.088	6,851.668	7,602.087	8,123.794	8,721.690	9,095.306	9,499.750	10,045.310	10,384.408	10,580.310
Medical and prosthetic research	135.288	135.258	151.583	186.289	215.124	181.246	195.123	197.330	206.036	198.839
Medical center research organizations	...	...	...	...	...	...	...	...	...	-1.000
Medical administration and miscellaneous operating expenses	49.461	51.546	58.365	64.581	65.571	54.780	40.265	40.463	46.721	47.590
Grants for construction of State extended care facilities	9.002	15.253	13.612	5.154	20.364	16.684	26.046	27.616	36.991	43.524
Grants to the Republic of the Philippines	1.202	.182	.353	.454	.339	.562	.268	.666	.655	.500
Assistance for health manpower training institutions	47.175	34.377	17.467	5.252	2.171	.986	.191	-.007	.388	...
Construction and operation of garage and parking facilities	-.134	.080	.176	...	...	...	...	...	...	...
Canteen service revolving fund	-1.632	-.803	-5.333	1.224	-11.027	1.579	-3.246	-19.160	-.600	-.550
Special therapeutic and rehabilitation activities fund	-.048	-.175	-.010	-.072	-.112	.059	.017	-.051	-.030	-.030
Total medical programs	6,560.402	7,087.386	7,838.300	8,386.676	9,014.120	9,351.202	9,758.414	10,292.167	10,674.569	10,869.183
Construction programs:										
Construction, major projects	307.558	345.323	337.782	382.805	397.966	389.509	376.207	483.045	526.776	513.977
Construction, minor projects	95.773	83.355	90.872	122.663	123.512	132.877	158.571	158.305	158.849	127.434
Parking garage revolving fund	...	...	...	...	...	...	2.378	8.106	10.555	19.538
Nursing home revolving fund	...	...	...	...	...	...	...	...	...	...
Total construction programs	403.331	428.678	428.654	475.468	521.478	522.386	537.156	649.456	696.180	660.949

BUDGET OUTLAYS
1981-1990
(dollars in millions)

Appropriation/Fund Account	ACTUALS 1981	1982	1983	1984	1985	1986	1987	1988	ESTIMATES 1989	1990
Federal funds (Continued):										
General operating expenses and misc.										
General operating expenses	626.133	649.939	673.718	704.093	724.048	729.522	720.224	780.581	774.354	801.500
Office of Inspector General	***	***	***	***	***	***	***	***	***	20.469
Grants for the construction of State veterans cemeteries	.674	.861	1.593	.849	.534	3.710	1.185	.370	5.000	1.946
Supply fund	-.841	-11.511	-32.376	-9.477	-16.543	17.460	-23.338	20.763	***	***
Total general operating expenses & misc	623.966	639.289	692.927	695.465	710.039	750.692	698.071	801.714	779.354	823.915
Total appropriations and funds	22,453.887	23,520.271	24,531.327	25,228.521	25,921.133	26,168.453	26,556.978	28,931.823	28,759.150	29,613.024
Proposed legislation:										
Compensation	***	***	***	***	***	***	***	***	***	286.300
Burial benefits	***	***	***	***	***	***	***	***	***	-36.500
Readjustment benefits	***	***	***	***	***	***	***	***	***	5.200
Loan guaranty revolving fund	***	***	***	***	***	***	***	***	***	-1,162.165
Education Loan	***	***	***	***	***	***	***	***	***	-.017
Medical care	***	***	***	***	***	***	***	***	***	-.707
General operating expenses	***	***	***	***	***	***	***	***	***	-4.400
3rd Party Reimbursements & Co-Payments	***	***	***	***	***	***	***	***	***	-85.836
Credit Reform:										
Loan guaranty revolving fund	***	***	***	***	***	***	***	***	***	49.265
Loan guaranty revolving fund subsidies	***	***	***	***	***	***	***	***	***	833.025
Direct loan revolving fund	***	***	***	***	***	***	***	***	***	-1.100
Direct loan revolving fund subsidies	***	***	***	***	***	***	***	***	***	.076
Vocational rehab revolving fund	***	***	***	***	***	***	***	***	***	-.431
Vocational rehab revolving fund subsidies	***	***	***	***	***	***	***	***	***	.141
Total proposed legislation	***	***	***	***	***	***	***	***	***	-117.149
Deduct: Proprietary receipts from the public	-2.942	-3.476	-77.510	-59.070	***	-113.253	-228.546	-338.924	-383.000	-539.000
Total federal funds	22,450.945	23,516.795	24,453.817	24,169.451	25,921.133	26,055.200	26,328.432	28,592.899	28,376.150	28,956.875
Trust funds:										
Post-vietnam era veterans education account	62.777	107.453	140.329	155.996	182.458	225.251	283.607	303.305	280.900	244.100
General post fund	6.887	7.641	9.449	10.479	11.600	11.844	20.617	16.700	19.000	19.500
National service life insurance	965.147	925.291	890.928	922.003	955.965	1,037.408	1,034.060	1,096.293	1,162.896	1,196.990
U.S. Government life insurance	70.048	64.332	59.851	51.879	45.698	44.739	40.325	37.476	35.310	33.180
Veterans special life insurance	-44.194	-50.510	-56.486	-57.992	-66.823	-72.156	-78.213	-75.900	-64.330	-61.180
Total trust funds (gross)	1,060.665	1,054.207	1,044.071	1,082.365	1,128.698	1,247.086	1,300.396	1,377.974	1,433.776	1,432.590
Deduct: Proprietary receipts from the public	-600.967	-612.103	-605.105	-617.028	-636.704	-650.226	-588.813	-515.598	-444.990	-487.580
Total trust funds (net)	459.698	442.104	438.966	465.337	491.994	596.860	711.583	845.205	925.650	1,027.010
Deduct: Intragovernmental transactions	-6.640	-21.521	-65.911	-51.008	-80.412	-116.350	-87.977	-184.197	-168.539	-153.011
Total Department of Veterans Affairs	$22,904.003	$23,937.378	$24,826.872	$25,583.780	$26,332.715	$26,535.710	$26,952.038	$29,270.978	$29,196.397	$29,830.874